

Message Text

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ACTION NEA-10

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-06 ISO-00 PM-03 NSC-05

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FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 3143

INFO AMEMBASSY ALGIERS

USING BAGHDAD

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY TRIPOLI

AMEMBASSY TEHRAN

AMEMBASSY QUITO

AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY VIENNA

USMISSION OECD PARIS

AMEMBASSY MUSCAT

C O N F I D E N T I A L ABU DHABI 1477

BEIRUT POUCH BAGHDAD

E.O. 11652: GDS

TAGS: ENRG, TC

SUBJECT: NEW DUBAI OIL AGREEMENT

REF: ABU DHABI 1412 (NOTAL)

1. ON JULY 10 SHAIKH RASHID, RULER OF DUBAI AND VICE PRESIDENT OF UAE,

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SIGNED AMIDST MUCH PUBLIC FANFARE NEW AGREEMENT WITH OWNERS OF OFF-SHORE PRODUCER, DUBAI PETROLEUM COMPANY. NEGOTIATIONS HAVE BEEN GOING ON FOR MANY MONTHS BUT CAME RAPIDLY TO SETTLEMENT WITH SUBMISSION, ABOUT A MONTH AGO, OF NEW PROPOSALS BY COMPANY.

2. PUBLIC STATEMENT READ ON BEHALF OF RASHID SPEAKS OF "DECISION OF OJ GOVERNMENT TO OWN THE INSTALLATIONS OF THE OIL COMPANIES WORKING IN OUR COUNTRY," CLAIMS THAT NEW AGREEMENT "CONFORMS WITH GENERAL POLICY OF OPEC", AND THAT UNDER ITS COMPANIES "RELINQUISH ALL THEIR RIGHTS IN THE UTILIZATION OF GAS AND CRUDE OIL." STATEMENT SAYS \$110 MILLION WILL BE PAID BY DUBAI GOVERNMENT TO COMPANIES "AS COMPENSATION FOR THEIR INSTALLATIONS IN DUBAI." STATEMENT CONTINUES THAT COMPANIES HAVE AGREED TO BEAR FULL RESPONSIBILITY FOR AND EXPENSES OF CONTINUED PRODUCTION AND CAPITAL DEVELOPMENT. LESS MISLEADING, SHORT COMPANY STATEMENT ISSUED AT SAME TIME (BUT NOT TRANSLATED INTO ARABIC FOR BENEFIT OF AUDIENCE) SAYS THAT THE GOVERNMENT HAS AGREED TO CREDIT

\$110 MILLION TOWARDS COMPENSATING OIL COMPANIES FOR THEIR PAST INVESTMENTS.

3. SHAIKH RASHID'S STATEMENT MUST TAKE SOME KIND OF PRIZE FOR THROWING DUST IN THE PUBLIC'S EYES. ALTHOUGH WE ARE NOT PRIVY TO ALL THE DETAILS, WE KNOW THAT COMPANIES OFFERED RASHID 100 PERCENT TAKE-OVER AS ONE OF ALTERNATIVES FOR NEW AGREEMENT, BUT RASHID REFUSED, ADHERING TO HIS PREFERENCE NOT TO PUT ANY OF HIS OWN MONEY INTO OIL OPERATION. COMPANIES THEN MADE CLEAR THAT IF THEY WERE TO PUT ANY FURTHER CAPITAL INTO OPERATION THEY WOULD HAVE TO RECEIVE SIGNIFICANTLY LARGER PER BARREL PROFIT MARGIN THAN THAT PROVIDED BY ABU DHABI FORMULA. RESULTANT AGREEMENT ENTITLES COMPANIES TO WRITE OFF ALL FUTURE CAPITAL EXPENDITURE WITHIN TWO YEARS, AND ALSO TELESCOPED WRITE-OFF FOR PAST INVESTMENT INTO \$110 MILLION CREDIT, ALSO SPREAD OVER TWO-YEAR PERIOD. WE ARE TOLD THAT THIS FORMULA WILL GIVE RASHID TAKE OF AROUND \$8.80-9.00/BBL ON BASIS OF PRESENT POSTED PRICE AND DEVELOPMENT PROGRAM. SETTLEMENT THEREFORE HAS MUCH OF "NEW LOOK" ABOUT IT WHEREBY GOVERNMENT AUTHORITIES ARE BEGINNING TO RECOGNIZE THEY MUST MEET COMPANIES HALF-WAY IN HELPING THEM RAISE CASH TO PROCEED WITH DEVELOPMENT. FACT THAT RASHID TOOK GREAT PAINS TO KEEP TERMS OF AGREEMENT FROM COMING TO ATTENTION OF UAE MINISTRY OF PETROLEUM WILL UNDOUBTEDLY IRRITATE SHAIKH ZAYID AND OIL MINISTER
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OTAIBA, BUT WE DON'T SEE THAT THERE'S MUCH THEY CAN DO ABOUT IT.

4. RASHID'S PUBLIC STATEMENT ACHIEVED ITS DESIRED PURPOSE OF CONFUSING THE PUBLIC, AT LEAST TEMPORARILY. PROMINENT DUBAI BUSINESSMEN CAME UP TO ME DURING SIGNING CEREMONIES AND ASKED ME WHY I WAS LOOKING CHEERFUL WHEN AN AMERICAN OIL COMPANY (SIC) WAS BEING TAKEN OVER. I MERELY SAID WE HAD LEARNED TO LIVE WITH THESE THINGS.
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